

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



FINANCIAL EXAMINATION

of

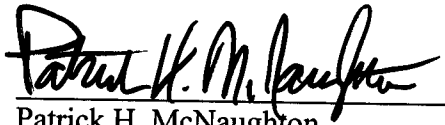
**Olympic Memorial Hospital Foundation
Port Angeles, Washington**

AS OF DECEMBER 31, 2003

**Order No. G 05-78
Exhibit A**

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Olympic Memorial Hospital Foundation of Port Angeles, Washington. This report shows the financial condition and related corporate matters as of December 31, 2003.



Patrick H. McNaughton
Chief Examiner

December 21, 2005

Date

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SALUTATION

Seattle, Washington
December 21, 2005

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building, Capitol Campus
302-14th Avenue SW
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate affairs and financial records of

Olympic Memorial Hospital Foundation

of

Port Angeles, Washington

hereinafter referred to as "OMHF" at the location of its home office, 939 Caroline Street, Port Angeles, WA 98362.

This report of examination is respectfully submitted showing the condition of OMHF as of December 31, 2003.

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 1999 through December 31, 2003. The examination was conducted in accordance with statutory requirements contained in the Revised Code of Washington (RCW) and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. We focused our review and testing on OMHF's management, operations, and reporting of the charitable gift annuity business as considered necessary to ascertain the financial condition of the organization and in conformity with the related laws. These matters are discussed in this report. The examination was conducted at the Port Angeles office of OMHF by examiners from the state of Washington.

OMHF records along with various aspects of the organization's operating procedures and financial reports were reviewed and tested during the course of this examination and are commented upon in the following sections of this report.

INSTRUCTIONS

The examiners reviewed OMHF's Annual Reports as part of the statutory examination. This review was performed to determine if the organization completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that the organization's accounts and records were prepared and maintained in accordance with Chapter 48.38 RCW.

The following summarizes the exceptions noted while performing this review.

1. Financial Reporting

The Annual Reports for the five year period ending December 31, 2003 did not agree with OMHF's accounting records. The accounting records included several account balances that did not accurately state the organization's financial condition. The following deficiencies were noted:

A. The filed 2003 and 2002 Annual Reports were significantly overstated; the reports included an undocumented or inappropriate asset transaction.

i.) The 2003 Balance Sheet included a \$500,000, charitable remainder trust contract, as other assets. The contract was booked in 2002. The organization's executive director indicated OMHF did not receive the \$500,000 contract and the transaction should not be included in the financial statements. There was no related liability reported for the charitable remainder trust contract. The \$500,000 was eliminated by the organization's treasurer as an audit adjustment in the Computation of Net Assets for December 31, 2003; the \$500,000; however, was included in the Annual Reports which resulted in overstating the 2002 and 2003 total of net assets.

ii.) The 2003 Annual Report showed a net income of \$48,491; however, OMHF's adjusted Profit and Loss Statement (P&L) showed a net loss of \$181,686. The differences were due to different accounting or reporting treatment of revenues and expenses in the Annual Report and P&L.

Several material adjustments were made in the examination report to reflect the actual financial position of OMHF, as of December 31, 2003, pursuant to Chapter 48.38 RCW. These adjustments to the annual report reduced assets from \$1,017,396 to \$535,126 and net income from a \$48,491 gain to an \$181,686 loss, or a \$230,177 reduction in net income. (See FINANCIAL STATEMENTS)

B. OMHF's accounting system does not (1) report amounts for the organization's total assets, liabilities, and net assets in a statement of financial position; (2) report the change in an organization's net assets in a statement of activities; and (3) report the change in its cash and cash equivalents in a statement of cash flows. OMHF's accounting system, therefore, does not meet the standards for general-purpose external financial statements provided by a nonprofit organization.

The Financial Accounting Standards Board (FASB) established Statement of Financial Accounting Standards (SFAS) 117 – Financial Statements of Not-for-Profit Organizations. SFAS 117 requires:

i.) That all not-for-profit organizations provide a statement of financial position, a statement of activities, and a statement of cash flows. It requires reporting amounts for the organization's total assets, liabilities, and net assets in a statement of financial position; reporting the change in an organization's net assets in a statement of activities; and reporting the change in its cash and cash equivalents in a statement of cash flows.

ii.) Classification of an organization's net assets and its revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets (permanently restricted, temporarily restricted, and unrestricted) be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

C. OMHF did not provide the information and reconciliations requested by the OIC examiner on June 28, 2004. A follow up inquiry for the June 28, 2004 information request, as well as additional request for information, was made on August 4, 2004; neither of which has been received to date.

D. The 2002 Annual Report showed a total of net assets of \$690,803 which included an unrestricted net asset of \$681,969. The Internal Revenue Service Form 990, Return of Organization Exempt from Income Tax, for the year ending December 31, 2002 showed a total of net assets of \$411,014 which included an unrestricted net asset of \$357,980. An OIC Insurance Policy and Compliance Analyst asked the organization to explain the difference in the two reports. The concern was that the unrestricted net assets, as

reported in Form 990, were below the required minimum unrestricted net assets of \$500,000. OMHF's response to OIC's inquiry did not adequately explain the differences.

RCW 48.38.010 states that: "The commissioner may grant a certificate of exemption to any insurer or educational, religious, charitable, or scientific institution conducting a charitable gift annuity business: (10) Which: (a) Files with the insurance commissioner on or before March 1 of each year a copy of its annual statement prepared pursuant to the laws of its state of domicile, as well as such other financial material as may be requested, . . . "

OMHF is instructed, pursuant to Chapter 48.38 RCW, to develop a system for accounting and reporting of its financial data to ensure its compliance with the principles or practices prescribed or permitted by the OIC and FASB's SFAS 117.

2. Minimum Unrestricted Net Assets

OMHF's reconciled and adjusted balance sheet as of December 31, 2003 showed an unrestricted net asset balance of \$363,391, which was significantly below the minimum unrestricted net assets required of \$500,000. The 2002, 2001, 2000, and 1999 balance sheets reported unrestricted net assets balance below \$500,000 as well. OMHF, therefore, did not comply with RCW 48.38.010(6) because it did not maintain the required minimum unrestricted net assets during the five year period under examination. As a result of this examination, adjustments to the 2003 Annual Report have been made in the examination report to agree with OMHF's revised 2003 financial statements. (See FINANCIAL STATEMENTS)

RCW 48.38.010 states that, "The commissioner may grant a certificate of exemption to any insurer, or educational, religious, charitable, or scientific institution conducting a charitable gift annuity business: (6) which has and maintains minimum unrestricted net assets of five hundred thousand dollars."

OMHF is instructed to maintain, at all times, the required minimum unrestricted net assets to ensure its compliance with RCW 48.38.010(6).

3. Assets of the Separate Reserve Fund

OMHF was not in compliance with the requirements stipulated in RCW 48.38.020(1) and (2)(a) because the assets of the charitable gift annuity reserve fund were not physically segregated from the other assets of the organization. The charitable gift annuity funds were invested and commingled with a charitable remainder annuity trust fund.

RCW 48.38.020 states that:

- (1) "Upon granting to such insurer or institution under RCW 48.38.010 a certificate of exemption to conduct a charitable gift annuity business, the insurance commissioner shall require it to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts."

- (2) "The assets of the separate reserve fund: (a) Shall be held legally and physically segregated from the other assets of the certificate of exemption holder."

OMHF is instructed to develop a system for accounting, investing, and reporting of its charitable gift annuity business to ensure its compliance with RCW 48.38.020(1) and (2)(a).

4. Audited Statements

OMHF's financial statements for the five year period under examination have not been audited by an independent certified public accountant. The organization never submitted its audited statements which is one of the required reports to be filed with the OIC in accordance with the Annual Report of Exempt Organizations Issuing Charitable Gift Annuities Instructions. OMHF did not comply with RCW 48.38.010(10)(a).

OMHF is instructed to have its financial statements audited by an independent certified public accountant and to file those audited statements in compliance with Chapter 48.38 RCW.

COMMENTS AND RECOMMENDATIONS

1. Conflict of Interest Policy

Our examination noted OMHF has no conflict of interest policy.

It is recommended OMHF develop and implement a conflict of interest policy to protect the interests of the annuitants, directors, officers, and employees of OMHF.

COMPANY PROFILE

History: OMHF was established and incorporated in the state of Washington on November 7, 1984. The mission of OMHF is to enhance the quality of care provided to patients of Olympic Medical Center.

Territory and Plan of Operation: OMHF is engaged in capital fund-raising activities to secure additional funding to further its goal of improving community health services. The campaign supports a multitude of medical care areas at Olympic Medical Center, including Olympic Medical Cancer Center and Cardiac Services, as well as renovations of the Obstetric Ward.

OMHF was granted a Certificate of Exemption Number 33 to conduct a Charitable Gift Annuity business in the state of Washington by the OIC on September 26, 1991. There were nine in-force annuity contracts as of December 31, 2003. All of the nine annuity

contracts were issued to residents of the state of Washington, and included: 8 Single Life Annuities, Immediate Payments and 1 Joint and Survivor Annuity, Immediate Payment.

Total Net Assets: OMHF's adjusted total of net assets, as determined by this examination, was \$418,759. This amount included an unrestricted net asset of \$363,391 which was below the required amount of \$500,000. The minimum unrestricted net asset requirements for the years 2003, 2002, 2001, 2000, and 1999 were not satisfied pursuant to RCW 48.38.010(6). (See INSTRUCTION No. 2)

Growth of Company: The growth of OMHF for the past five years is not reflected in this examination report. Information and data from OMHF's financial statements and annual reports (for the years ended December 31, 2002, 2001, 2000, and 1999) were irreconcilable or incomplete in order to produce accurate exhibits. (See INSTRUCTION No. 1)

AFFILIATED COMPANIES

The organization's executive director indicated OMHF does not have any affiliates.

MANAGEMENT AND CONTROL

Ownership: OMHF is an independent, nonprofit corporation dedicated to supporting the health care needs of the North Olympic Peninsula. It is organized exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code.

Board of Directors: The organization is managed by the Board of Directors (BOD) comprised of not more than fifty (50) members.

Board of Directors and Executive Committee serving OMHF in 2004 are as follows:

Ron Allen	Mike Glenn	Dr. Charlotte Metzler
Bill Ashley	Kelly Gouge	Jack & Betty Montgomery
Harbir Bower	Julie Hatch	Jim Mowry
John Brewer	Mary Hebert	Steve Oliver
Jim Cammack	Jerry Hendricks	E.V. "Bub" Olsen
Jan Clevenger	Aimee Henning	Gail Ralston
Terri DeBray	Joan Isenberger	Lynn Rogers
Don Fairbairn	Jim Jones, Jr.	Sandy Sinnes
Dr. Mark Fischer	Dick Kent	Bruce Skinner
Dave Flodstrom	Cherie Kidd	Charles & Joyce Stroeher
Eric Flodstrom	Lu Lawrence	Bill Thomas
Dr. Jamie Flowers	Bob Lovell	Judy Tordini
Casi Fors	Terry MacDonald	Michelle Turner-Wolfe

Dan Fryer
Carol Gano
Bill Gellor

Rochelle McHugh
Dan McKeen
Sarah Methner

Marylou Waitz
Dan Wilder
Duane Wolfe

Officers: The officers of OMHF, elected annually by the BOD, include a president, one or more vice presidents, secretary, treasurer and such other officers and assistant officers as may be deemed necessary by the BOD.

Conflict of Interest: OMHF has no Conflict of Interest Policy. (See COMMENT AND RECOMMENDATION No.1)

CORPORATE RECORDS

The BOD meets at least six times a year to discuss that business which is pertinent to OMHF. Minutes of meetings of the BOD approve and support organization transactions and events. No exceptions were noted.

STATEMENT OF ACTUARIAL OPINION

A consulting actuary with the firm of Mercer Human Resource Consulting determined the adequacy of the annuity reserves. In the Statement of Actuarial Opinion, the actuary acknowledges that he is a member of the Society of Actuaries. His opinion indicates that OMHF's annuity contract reserves meet the requirements of RCW 48.38.020(3) of the Washington Insurance Code applicable to charitable gift annuities. The annuity reserves calculated in the opinion reconcile to the examination balances as adjusted.

ANNUITY ASSETS CUSTODIAL FUNCTION

The assets of the separate reserve fund were not held and physically segregated from the other assets of OMHF; the charitable gift annuity investments included funds from a charitable remainder annuity trust contract. Total annuity investments as of December 31, 2003 were \$247,563, and consisted of money market funds, bonds, and stocks. Investments were recorded at market value. (See INSTRUCTION No. 3)

SUBSEQUENT EVENTS

An Order Suspending Certificate of Exemption Number 33 was signed and entered on May 7, 2004 by the OIC. The order of suspension is based upon the following: OMHF (1) failed to maintain unrestricted net assets of at least \$500,000 which is a violation of RCW 48.38.010(6); (2) issued an annuity while having less than \$500,000 in unrestricted net assets, which is a violation of RCW 48.38.012; and (3) failed to respond to an OIC inquiry in a timely manner, which is a violation of RCW 48.05.140(6). (See INSTRUCTION No. 2)

ACCOUNTING RECORDS AND PROCEDURES

OMHF's accounting system does not meet the standards for general-purpose external financial statements established by FASB's SFAS 117 – Financial Statements of Not-for-Profit Organizations. The organization's financial statements for the five year period under examination have not been audited by an independent certified public accountant. (See INSTRUCTIONS No. 1B and No. 4)

FINANCIAL STATEMENTS

The following examination financial statements show the financial conditions of OMHF as of December 31, 2003:

Balance Sheet

	<u>Balance Per Annual Report</u>	<u>Adj. Notes</u>	<u>Examination Adjustments</u>	<u>Examination Balance</u>
<u>ASSETS</u>				
Cash and other investments	\$99,886			\$99,886
Gift annuity investments	247,563			247,563
Other assets	669,947	1	(\$482,270)	187,677
Total Assets	<u>\$1,017,396</u>		<u>(\$482,270)</u>	<u>\$535,126</u>
<u>LIABILITIES</u>				
Accounts payable-trust account	\$30,539	1	\$3,221	\$27,318
Charitable gift annuities reserve	247,563	1	158,514	89,049
Total Liabilities	<u>278,102</u>		<u>161,735</u>	<u>116,367</u>
<u>NET ASSETS</u>				
Unrestricted	730,460	1	367,069	363,391
Temporarily restricted	0	1	(47,196)	47,196
Permanently restricted	8,834	1	662	8,172
Total Net Assets	<u>739,294</u>		<u>320,535</u>	<u>418,759</u>
Total Liabilities and Net Assets	<u>\$1,017,396</u>		<u>\$482,270</u>	<u>\$535,126</u>

Summary of Operations

	<u>Balance Per Annual Report</u>	<u>Adj. Notes</u>	<u>Examination Adjustments</u>	<u>Adjusted Balance</u>
Revenues	\$549,422	1	(\$251,279)	\$298,143
Expenses	500,931	1	21,102	479,829
Net Income (Loss)	<u>\$48,491</u>		<u>(\$230,177)</u>	<u>(\$181,686)</u>

Adjustment Notes:

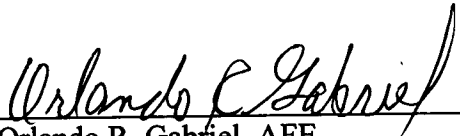
Note 1 – To adjust the 2003 Annual Report to agree with OMHF's records. The above adjustments recognized the adjustments made by OMHF's treasurer as a result of his reconciliation of OMHF's net assets. (See INSTRUCTIONS No. 1 and No. 2)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of OMHF during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner, from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,



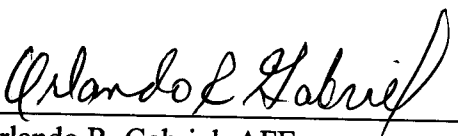
Orlando R. Gabriel, AFE
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 } ss
COUNTY OF KING }


Orlando R. Gabriel, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of OMHF was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).



Orlando R. Gabriel, AFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 21st day of December, 2005.



Notary Public in and for the
State of Washington,
Residing at Seattle.

